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Message Text

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CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 PA-04 PRS-01 USIA-15 AGR-20 DRC-01 /197 W
---------- 025987
R 141428Z JUN 74
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 1268
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JUNE 14

BEGIN SUMMARY: THIS WEEK, STERLING DRIFTED STEADILY DOWN-
WARD AGAINST THE DOLLAR, FROM $2.4075 ON FRIDAY (JUNE 7)
TO $2.3912 ON THURSDAY (JUNE 13). POOR TRADE FIGURES AND
HIGHER EURODOLLAR INTEREST RATES AT WEEK'S END OFFERED AS
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EXPLANATION. IN TERMS OF ITS AVERAGE WEIGHTED DEVALUATION

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THE POUND ACTUALLY STRENGTHENED SLIGHTLY DURING THE WEEK, REMAINING IN 17 PERCENT RANGE. GOLD WAS IN $155-$157 AREA DURING WEEK, CLOSING AT $157.25 ON JUNE 13, DOWN $1.75 FROM PREVIOUS THURSDAY'S CLOSE. THE NATIONAL INSTITUTE FORECAST POOR GROWTH AND AN IMPROVING BALANCE OF PAYMENTS DURING 1974 AND 1975. THE BANK OF ENGLAND QUARTERLY STRESSED THAT DOMESTIC RESOURCES MUST BE MADE AVAILABLE FOR EXPORTS, AND THAT THE DEFICIT MUST BE CORRECTED WITH AS LITTLE DELAY AS POSSIBLE. UK TERMS OF TRADE IN FEBRUARY SHOWED FURTHER SHARP FALL, TO 76.5 (1970100), BUT WITH SOME HOPE THAT LONG DECLINE IN NON-OIL TERMS OF TRADE IS FINALLY OVER. UK RECORDED RECORD TRADE DEFICIT OF 481 MILLION POUNDS IN MAY, INVISIBLES SURPLUS OF 103 MILLION POUNDS REDUCED CURRENT DEFICIT TO 378 MILLION POUNDS. FIRST QUARTER BALANCE OF PAYMENTS ALSO HAD RECORD TRADE AND CURRENT ACCOUNT DEFICITS OF 1,288 AND 979 MILLION POUNDS RESPECTIVELY, BUT ALMOST ENTIRELY OFFSET BY CAPITAL INFLOWS AND ERRORS AND OMISSIONS. RESERVES FELL ONLY 39 MILLIOFTPOUNDS. IN MAY, RETAIL SALES FELL A FURTHER 1.3
MANUFACTURED GOODS INCREASED
2.1 PERCENT, BUT WHOLESALE PRICES OF MATERIALS BARELY INCREASED. END SUMMARY

1. THE NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH (NIESR) MAY REVIEW FORECASTS NO GROWTH FOR THE BRITISH ECONOMY IN THE SECOND HALF OF 1974 AND MINIMAL GROWTH IN 1975. IN 1974 AND 1975, INCREASES IN WAGES AND SALARIES ARE EXPECTED TO BE 15.5 AND 16.6 PERCENT CONSUMER PRICE INDEX UP 17.3 AND 13.7 PERCENT RESPECTIVELY. FORECAST BALANCE OF PAYMENTS ON VISIBLE TRADE IN 1974 IS 4.6 BILLION POUNDS DEFICIT OFFSET BY 1.2 BILLION POUNDS INVISIBLES SURPLUS, WITH CURRENT DEFICIT OF 3.4 BILLION POUNDS. FOR 1975, VISIBLE TRADE DEFICIT FORECAST AT 2.8 BILLION POUNDS, INVISIBLES SURPLUS AT 1.2 BILLION POUNDS, CURRENT DEFICIT 1.6 BILLION POUNDS. OIL DEFICIT FOR 1974 PUT AT 1.9 BILLION POUNDS ON BALANCE OF TRADE BASIS, WITH ADDITIONAL INTEREST CHARGES NECESSARY TO SUSTAIN TRADE DEFICIT WITH OIL PRODUCERS OF 90 MILLION POUNDS; FOR 1975, FORECAST OIL BALANCE OF TRADE DEFICIT IS 1.420 BILLION POUNDS, WITH SIMILAR INTEREST CHARGES OF 280 MILLION
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ILS IN LONDON 9396, LONDON A-531
AND BY ADDITIONAL AIRGRAM.

2. BANK OF ENGLAND (BOE) JUNE QUARTERLY BULLETIN CONTAINS WARNING THAT BALANCE OF PAYMENTS DEFICIT MUST BE CORRECTED WITH AS LITTLE DELAY AS POSSIBLE. GENERAL SITUATION OF ECONOMY REMAINS IN GREAT DIFFICULTY, WHICH WILL TAKE SEVERAL YEARS TO OVERCOME, AND WHICH WILL REQUIRE FIRM

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AND BALANCED COMBINATION OF POLICIES. PROBLEMS ARE ON A SCALE THAT GOES BEYOND PREVIOUS EXPERIENCE. PROGRESS TOWARDS CORRECTING BALANCE OF PAYMENTS DEFICIT MUST BE CLEAR AND STEADY, IMPLYING THAT AS NATIONAL OUTPUT RISES, INCREASING PROPORTION OF INCREASE IN RESOURCES WILL HAVE TO BE DEVOTED TO THAT END. BANK IS OPTIMISTIC ABOUT OUT-LOOK FOR UK EXPORTS DURING REST OF YEAR, BELIEVES UK INDUSTRY IS WELL PLACED TO SELL OVERSEAS, PROVIDED RESOURCES IN ECONOMY ARE MAINTAINED FOR CONTINUED STRONG EXPORT GROWTH. PRESS OBSERVERS JUDGE BOE'S MESSAGE TO GOVERNMENT IS DO NOT REFLATE TO DETRIMENT OF BALANCE OF PAYMENTS.

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CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 PA-04 PRS-01 USIA-15 AGR-20 DRC-01 /197 W
---------- 026564
R 141428Z JUN 74
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 1269
INFO AMEMBASSY BERN
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AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
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3. UK TERMS OF TRADE FOR FEBRUARY, DELAYED SEVERAL WEEKS BECAUSE OF COMPUTER DIFFICULTIES, SHOW A FURTHER SHARP FALL WITH IMPORT PRICES INCREASING THREE TIMES FASTER THAN EXPORT PRICES DURING THE MONTH. THE RESULT IS A 4.4 PER-CENT DECLINE IN THE TERMS OF TRADE INDEX, TO 76.5 (1970 100). IT WAS 80.0 IN JANUARY. THE IMPORT UNIT VALUE INDEX INCREASED 7.5 PERCENT TO 190.0; THE EXPORT UNIT UNCLASSIFIED

VALUE INDEX ROSE 2.8 PERCENT TO 145.2. TWO-THIRDS OF THE RISE IN THE IMPORT INDEX WAS CAUSED BY THE HIGHER COST OF OIL, THUS IF OIL INDEX IS EXCLUDED, AVERAGE VALUE OF IM-PORT VALUE RISE FALLS SLIGHTLY BELOW THAT OF EXPORTS. FOR THREE MONTHS, DECEMBER-FEBRUARY, EXPORT VALUE INDEX IN-CREASED 7 PERCENT ABOVE PREVIOUS THREE MONTHS, COMPARED TO 15 PERCENT RISE IN IMPORT VALUES, WHICH BECOMES ABOUT 5.5 PERCENT IF OIL IS EXCLUDED. MONTHS IN QUESTION INCLUDE MINERS' STRIKE AND THREE-DAY WEEK. FIGURES CONTAIN SOME DISTORTIONS, BUT IN FEBRUARY VOLUME OF EXPORTS INCREASED 11 PERCENT OVER JANUARY, VOLUME OF IMPORTS UP ONLY 5 PER-CENT. MOST OBSERVERS SEE THESE FIGURES AS INDICATING THAT LONG DECLINE IN NON-OIL TERMS OF TRADE MAY BE ENDING AND THAT UK EXPORTERS ARE TAKING ADVANTAGE OF COMPETITIVE STERLING RATE, INCREASING PRICES AND MAKING GREATER EFFORT IN EXPORT MARKETS.

4. UK RECORDED A RECORD TRADE DEFICIT OF 481 MILLION POUNDS IN MAY, COMPRISING PETROLEUM DEFICIT OF 304 MILLION POUNDS AND OTHER GOODS DEFICIT OF 177 MILLION. TRADE DEFICIT INCREASED 90 MILLION POUNDS OVER APRIL, DUE ENTIRELY TO INCREASE IN OTHER GOODS DEFICIT OF 94 MILLION BELIEVED BY OBSERVERS TO REFLECT INDUSTRIAL RESTOCKING AFTER THREE-DAY WEEK AND FURTHER INCREASES IN IMPORT PRICES. INVISIBLES WERE IN SURPLUS 103 MILLION POUNDS, CURRENT DEFICIT WAS 378 MILLION. DETAILS BY SEPARATE CABLE.

5. UK BALANCE OF PAYMENTS IN FIRST QUARTER 1974 SHOWED CURRENT DEFICIT OF 979 MILLION POUNDS (S.A.), LARGEST EVER RECORDED (FOURTH QUARTER 1973 DEFICIT WAS 661 MILLION POUNDS). IN MILLIONS OF POUNDS (PREVIOUS QUARTER IN PARENTHESES), VISIBLE TRADE DEFICIT WAS 1,288 (1,019), INVISIBLES SURPLUS 309 (358) WAS REDUCED BY GROWING

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INTEREST PAYMENTS ON PUBLIC SECTOR BORROWING FROM ABROAD.
THE DEFICIT ON TRADE IN OIL (PETROLEUM AND PETROLEUM PRO-
DUCTS) ACCOUNTED FOR MORE THAN HALF THE VISIBLE DEFICIT,
720 (300). THIS IS DUE TO INCREASE IN COST OF CRUDE OIL
PRICES FROM 10.8 POUNDS PER TON TO 24.1 POUNDS PER TON.
THERE WAS REDUCTION IN NON-OIL VISIBLE TRADE DEFICIT TO
568 (FROM 719). ON NON-SEASONALLY ADJUSTED BASIS,
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CURRENT DEFICIT IN FIRST QUARTER WAS 1,089, OFFSET BY
CAPITAL INFLOWS OF 689, INCLUDING INCREASED STERLING
EXCHANGE RESERVE HOLDINGS OF 250 REFLECTING LARGE
RECEIPTS OF OIL REVENUES BY SOME PRODUCING COUNTRIES.
ERRORS AND OMISSIONS (BALANCING ITEM) WERE POSITIVE IN
ACCOUNT OF 361. TOTAL CURRENCY FLOW DEFICIT, AKIN TO
OFFICIAL RESERVE TRANSACTIONS BALANCE, WAS 39, FINANCED
BY DRAWING ON RESERVES. DETAILS FOLLOW BY AIRGRAM.
QUARTER IN QUESTION WAS PLAGUED WITH THREE-DAY WEEK AND
MINERS' STRIKE. THERE COULD BE SOME DISTORTION IN FIGURES.

6. THE VOLUME OF RETAIL SALES CONTINUED TO FALL IN MAY.
THE INDEX DECLINED 1.3 PERCENT, TO 106.5 (1971-100), FROM
107.9 IN APRIL. RETAIL SALES IN THE FIRST FIVE MONTHS OF

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INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

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FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 PA-04 PRS-01 USIA-15 AGR-20 DRC-01 /197 W
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FM AMEMBASSY LONDON
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THE YEAR ARE ABOUT 2.5 PERCENT BELOW THE AVERAGE FOR THE SECOND HALF OF 1973.

7. THE SHARP INCREASES IN WHOLESALE PRICES OF MATERIALS MODERATED IN MAY, ALTHOUGH WHOLESALE MANUFACTURED GOODS INDEX CONTINUED TO SHOW STRONG INCREASES. THE OUTPUT PRICES (WHOLESALE PRICES OF HOME SALES) INDEX INCREASED TO 149.5 (1970100), FROM 146.4 IN APRIL, A MONTHLY INCREASE
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OF 2.1 PERCENT. THE MATERIALS INDEX INCREASED SLIGHTLY TO 210.3 (1970100) FROM 209.9 IN APRIL, UP ONLY 0.2 PERCENT REFLECTING THE EASING OF BASIC MATERIAL PRICES.

8. FORWARD DISCOUNTS WIDENED PROGRESSIVELY ON STERLING DURING THE WEEK.

	6/6	6/13	CHANGE
1 MONTH	0.35	0.45	UP 0.10
3 MONTHS	1.52	2.03	UP 0.51
6 MONTHS	4.17	4.75	UP 0.58

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY RATES CONTINUED TO EDGE DOWNWARD.

	6/6	6/13	CHANGE
1 MONTH	12-3/8	11-7/8	DOWN 1/2
3 MONTHS	12-5/8	12-1/16	DOWN 9/16
6 MONTHS	12-7/8	12-7/16	DOWN 7/16

10. EURODOLLAR RATES FELL AT MID-WEEK, THEN ROSE ON THURS-

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DAY, JUNE 13.

	6/6	6/13	CHANGE
1 MONTH	11-9/16	11-7/8	UP 5/16
3 MONTHS	11-3/4	11-3/4	NO CHANGE
6 MONTHS	11-11/16	11-5/8	DOWN 1/16

11.' BANK OF ENGLAND'S MINIMUM LENDING RATE REMAINED AT 11-3/4 PERCENT.

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Control Number: n/a
Copy: SINGLE
Draft Date: 14 JUN 1974
Decaption Date: 01 JAN 1960
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Disposition Action: n/a
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Disposition Date: 01 JAN 1960
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Disposition History: n/a
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Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING JUNE 14 BEGIN SUMMARY: THIS WEEK, STERLING DRIFTED STEADILY DOWN-
TAGS: ECON, UK
To: STATE
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